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NATIONAL ENERGY BOARD REASONS FOR DECISION

In the Matter of Phase II of a Public Hearing
Respecting Tariffs and Tolls to be Charged,
the Financing of the Pipeline, and Other Related Matters
of

FOOTHILLS PIPE LINES (YUKON) LTD.

OCTOBER 1979

NATIONAL ENERGY BOARD

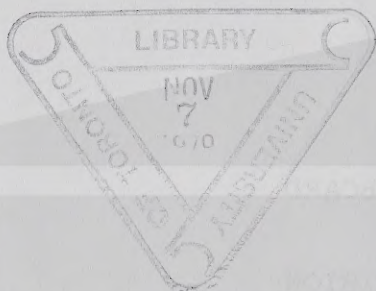
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NATIONAL ENERGY BOARD

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder, and the Northern Pipeline Act; and

IN THE MATTER OF a public hearing respecting tariffs and tolls to be charged by Foothills Pipe Lines (Yukon) Ltd. (hereinafter referred to as Foothills (Yukon)), the financing of the pipeline and related matters. File No.: 1510-2-2.

Phase II

Heard at Ottawa, Ontario on 1, 2, 7, and 10 August 1979.

Before:

C.G. Edge	Presiding Member
L.M. Thur	Member
R.B. Horner	Member

Appearances:

R.J. Gibbs, Q.C.	)	Foothills (Yukon)
J.W. Lutes)	
John Hopwood, Q.C.	)	The Alberta Gas Trunk
E.C. Eddy	)	Line Company Limited
E.B. McDougall	)	Northwest Alaskan
D. Silversen	)	Pipeline Company
M.A. Brown	)	TransCanada PipeLines
	)	Limited
E.B. McDougall	)	Northwest Pipeline
D. Silversen	)	Corporation
Hyman Soloway, Q.C.	)	Tennessee Gas
W.T. Houston	)	Pipeline Division of
	)	Tenneco Inc.
Terry Hughes	)	Gulf Canada Resources
G.H. Connell	)	Inc.
C.R. Ayers	)	Hudson's Bay Oil and
	)	Gas Company Limited
P.M. Nettleton	)	Imperial Oil Limited

(ii)

B.W. Jessup

)
)

Shell Canada
Resources Limited

D.E. Wires

)
)

The Consumers' Gas
Company

A. Butler

)

Union Gas Limited

John Ballem, Q.C.

)
)

Canadian Petroleum
Association

J. McL. Hendry

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Board Counsel

Ann Bigué

)

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Order No. TG-4-79

ABBREVIATIONS AND DEFINITIONS

AGTL	-	The Alberta Gas Trunk Line Company Limited
ANG	-	Alberta Natural Gas Company Ltd.
Board or NEB	-	The National Energy Board
Canada-U.S. Agreement	-	Agreement between Canada and the United States of America on Principles Applicable to a Northern Natural Gas Pipeline, dated September 20, 1977.
Company Use Gas	-	For any period the total volume of gas, as determined by the Company, including but not limited to gas used as fuel or for testing, used by the Company in its gas transmission operations during such period.
CPA	-	Canadian Petroleum Association
Designated Officer of the Northern Pipeline Agency	-	The member of the National Energy Board who is designated under the Northern Pipeline Act as Deputy to the Administrator of the Northern Pipeline Agency.
Dempster Lateral	-	The proposed pipeline to transport Canadian natural gas from the Mackenzie Delta along a route generally parallel to the Dempster Highway, connecting with the Northern Pipeline near Whitehorse, Y.T. The Dempster Lateral comprises Zones 10 and 11 of the Foothills (Yukon) pipeline.
Eastern Leg (in Canada)	-	At a point just south of Caroline, Alberta, the pipeline will bifurcate. The "eastern leg" will proceed in a southeasterly direction to the Alberta - Saskatchewan border near Empress, Alberta and then to the Canada - United States border near Monchy, Saskatchewan where it will connect with the facilities of Northern Border Pipeline Company (the United States eastern leg).

- F.E.R.C. - The United States Federal Energy Regulatory Commission, formerly the Federal Power Commission.
- F.E.R.C. Order No. 31 - The Federal Energy Regulatory Commission's Order No. 31, "Order Setting Values for Incentive Rate of Return, Establishing Inflation Adjustment and Change in Scope. Procedures, and Determining Applicable Tariff Provisions", Docket No. RM78-12 Issued 8 June 1979.
- Foothills (Yukon) - Foothills Pipe Lines (Yukon) Ltd. is the parent company responsible for the Canadian portion of the Alaska Highway Gas Pipeline Project. Foothills (Yukon) is currently sponsored 50 per cent each by AGTL and Westcoast. The ownership of the pipeline is segmented into six federally-incorporated subsidiaries.
- Foothills (South Yukon) - Foothills Pipe Lines (South Yukon) Ltd., owned one hundred (100) per cent by Foothills (Yukon), will own, operate and manage the approximately eight hundred and thirty (830) kilometres of pipeline through the Southern Yukon.
- Foothills (North B.C.) - Foothills Pipe Lines (North B.C.) Ltd. owned fifty-one (51) per cent by Foothills (Yukon) and forty-nine (49) per cent by Westcoast, will own, operate and manage the approximately seven hundred and ten (710) kilometres of pipeline through northern British Columbia.
- Foothills (Alta.) - Foothills Pipe Lines (Alta.) Ltd. owned fifty-one (51) per cent by Foothills (Yukon) and forty-nine (49) per cent by AGTL, will own, operate and manage the approximately thirteen hundred (1300) kilometres through Alberta.

- Foothills (Sask.) - Foothills Pipe Lines (Sask.) Ltd., owned one hundred (100) per cent by Foothills (Yukon), will own, operate and manage the approximately two hundred and sixty (260) kilometres of pipeline in Saskatchewan.
- Foothills (South B.C.) - Foothills Pipe Lines (South B.C.) Ltd., owned fifty-one (51) per cent by Foothills (Yukon) and forty-nine (49) per cent by Alberta Natural Gas Company Ltd., will own, operate and manage the approximately one hundred and seventy (170) kilometres of pipeline through southern British Columbia.
- Foothills (North Yukon) - Foothills Pipe Lines (North Yukon) Ltd., owned one hundred (100) per cent by Foothills (Yukon), will own, operate and manage the approximately eleven hundred and eighty (1180) kilometres of pipeline through the Yukon and Northwest Territories to connect Delta gas to Whitehorse along the Dempster Highway.
- Foothills Pipe Lines Ltd.- A company owned 70 per cent by The Alberta Gas Trunk Line Company Limited and 30 per cent by Westcoast Transmission Company Limited. The Company's activities related primarily to the Mackenzie Valley pipeline project.
- Lost and Otherwise Unaccounted for Gas - For any zone in any period the difference between the total volume of gas received by a subsidiary company, in such period, in such zone, and the sum for that period of
- (a) all gas delivered out of such zone, plus
 - (b) Company Use Gas in such zone, plus or minus
 - (c) Line Pack Change in such zone.

- "Mcf-mile" Method of Allocation - The shipper's zone Mcf-miles is the product computed by multiplying shipper's Zone Receipt Point volume stated in Mcf (thousand cubic feet) by the distance, in miles, between the shipper's Zone Receipt Point and the Shipper's Delivery Point in the zone.
- Northern Border Pipeline Company - Northern Border (the U.S. eastern leg) is a natural gas pipeline company engaged in transporting gas from an interconnection with the pipeline facilities of Foothills (Sask.) at the international boundary near Monchy, Saskatchewan to points of delivery to the east on Northern Border's system.
- Northern Pipeline Act - "An Act to establish the Northern Pipeline Agency, to facilitate the planning and construction of a pipeline for the transmission of natural gas from Alaska and Northern Canada and to give effect to an Agreement between Canada and the United States of America on principles applicable to such a pipeline and to amend certain Acts in relation thereto", proclaimed into force on 13 April 1978.
- Northern Pipeline Hearing- The hearings held by the National Energy Board during 1976 and 1977 that resulted in a publication of the Board entitled "Reasons for Decision, Northern Pipelines", dated June, 1977, and which led to a certificate of public convenience and necessity, by virtue of the Northern Pipeline Act, to the subsidiaries of Foothills Pipe Lines (Yukon) Ltd.
- Pan-Alberta - Pan-Alberta Gas Ltd.
- Prebuild Facilities and Prebuilding - The facilities of the Foothills (Yukon) pipeline to be built to transmit for export natural gas of Canadian origin before the rest of the pipeline is placed in service for the transmission of Alaska gas.

Tracking

- The ability of a shipper on a pipeline to automatically pass through its share of the cost of transmission on the pipeline to its own customers.

Western Leg (in Canada)

- At a point just south of Caroline, Alberta, the pipeline will bifurcate. The "western leg" will proceed southward to Coleman on the Alberta - British Columbia border and then in a southwesterly direction to the Canada - United States border near Kingsgate, B.C., where it will connect with the facilities of Pacific Gas Transmission Company (the United States western leg).

Zones 1 to 11

- The zones for the Northern Pipeline and the Dempster Line in Canada, described as follows in the Canada - U.S. Agreement:

Zone 1 Foothills Pipe Lines
(South Yukon) Ltd.

Alaska Boundary to point of interconnection with the Dempster Line at or near Whitehorse.

Zone 2 Foothills Pipe Lines
(South Yukon) Ltd.

Whitehorse to Watson Lake.

Zone 3 Foothills Pipe Lines
(North B.C.) Ltd.

Watson Lake to point of interconnection with Westcoast's main pipeline near Fort Nelson.

Zone 4 Foothills Pipe Lines
(North B.C.) Ltd.

Point of interconnection with Westcoast's main pipeline near Fort Nelson to the Alberta - B.C. border.

(x)

Zone 5 Foothills Pipe Lines
(Alta.) Ltd.

Alberta - B.C. border to point of
bifurcation near Caroline,
Alberta.

Zone 6 Foothills Pipe Lines
(Alta.) Ltd.

Caroline, Alta. to Alberta -
Saskatchewan border near Empress.

Zone 7 Foothills Pipe Lines
(Alta.) Ltd.

Caroline to Alberta - B.C. border
near Coleman.

Zone 8 Foothills Pipe Lines
(South B.C.) Ltd.

Alberta - B.C. border near
Coleman to B.C. - United States
border near Kingsgate.

Zone 9 Foothills Pipe Lines
(Sask.) Ltd.

Alberta - Saskatchewan border
near Empress to Saskatchewan -
United States border near Monchy.

Zone 10 Foothills Pipe Lines
(North Yukon) Ltd.

Mackenzie Delta Gas fields in the
Mackenzie Delta, N.W.T. to a
point near the junction of the
Klondike and Dempster Highways
just west of Dawson, Yukon
Territory.

Zone 11 Foothills Pipe Lines
(South Yukon) Ltd.

A point near the junction of the
Klondike and Dempster Highways
near Dawson to the connecting
point with the Pipeline at or
near Whitehorse.

1. BACKGROUND AND INTRODUCTION

1.1 The Hearing

On 12 April 1979, by Order No. RH-2-79, the National Energy Board ("NEB" or the "Board") ordered that a public hearing be held in Ottawa to hear evidence and submissions on the tariffs and tolls to be charged by Foothills Pipe Lines (Yukon) Ltd. ("Foothills (Yukon)"), the financing of the pipeline and other related matters. The Board decided to hear evidence and submissions on these matters in phases.

Phase I of the Hearing, which was completed on 26 June 1979, dealt with the Board's proposed method for the regulation of the tolls and tariffs of the Foothills (Yukon) pipeline; the form and content of the tariff for the pipeline as a whole in Canada, excluding provision for "prebuild" facilities; and the preliminary expenditures incurred up to 31 December 1978 with a view to qualifying them for inclusion in the rate base of Foothills (Yukon) and its subsidiary companies.

On 30 July 1979, the Board released its Reasons for Decision on Phase I and issued Order No. TG-1-79 by which the Board disposed of the above issues. The Order sets out the Board's method for regulating the tolls and tariffs of the Foothills (Yukon) pipeline. The Board ordered that a single tariff be established in Canada for all Canadian segments of the Foothills (Yukon) pipeline and required Foothills (Yukon)

to file such a tariff at a date to be specified by the Board. The Board approved the form and content of the Foothills (Yukon) tariff for the movement of gas through the Canadian segments of the Alaska Highway Gas Pipeline System, excluding provision of "prebuild" facilities and subject to certain revisions and modifications. Finally, the Board approved the inclusion and amortization in the rate base of Foothills (Yukon) and its subsidiaries of an amount of \$79,111,000 being the preliminary expenses incurred up to 31 December 1978, subject to certain provisions, and determined the method of allocation of the cost of service charges associated with the preliminary expenditures.

1.2 Phase II

Phase II of the Hearing commenced on 1 August 1979*. The purpose of Phase II was to enable the Board to determine whether the form and content of the tariff for the movement of Alberta gas through the southern portion of the Canadian segments of the Alaska Highway Gas Pipeline System proposed to be prebuilt (i.e., the "prebuild" section) is an appropriate method to use in the determination of just and reasonable tolls for such movement. In an Information Request issued to the Company and at the opening of Phase II, the Board pointed out that it not only wanted to examine the form and content of

* Order No. PO-3-RH-2-79, as amended by
Order No. AO-1-PO-3-RH-2-79, (Appendix A).

the tariff for the "prebuild" section, but also the economic effect of such tariff.

With respect to Phase II, Foothills (Yukon) applied for an order approving the form and content of the tariff for the "prebuild" section. The evidence shows that the "prebuild" section consists of the facilities in Zones 6, 7, 8, and 9 that would be constructed and operated by three subsidiary companies of Foothills (Yukon), namely Foothills Pipe Lines (Alta.) Ltd., Foothills Pipe Lines (South B.C.) Ltd., and Foothills Pipe Lines (Sask.) Ltd. The "prebuild" facilities would be used to transport gas purchased in Alberta and gathered by Alberta Gas Trunk Line Company Limited ("AGTL") before being delivered into the "prebuild" facilities of Foothills (Yukon) at Caroline and Princess, Alberta. The Alberta gas would be transported through Zones 7 and 8, to be delivered at an interconnection point with United States facilities at Kingsgate, British Columbia (the western leg in Canada), and through Zones 6 and 9, to be delivered at an interconnection point with United States facilities at Monchy, Saskatchewan (the eastern leg in Canada). The proposed tariff for the "prebuild" section of the pipeline (i.e., the "prebuild" tariff) provides for only one shipper, Pan-Alberta Gas Ltd. ("Pan-Alberta"). The proposal is predicated on the assumption that Pan-Alberta will obtain an export licence. It is also proposed that the tariff for the "prebuild" section expire as soon as Alaska gas begins to flow through the Alaska Highway Gas Pipeline System.

The application by Pan-Alberta for a licence to export the gas that it plans to transmit through the "prebuild" facilities is being dealt with by the Board in the "Licence Phase" of the Omnibus Gas Hearing called under Board Order No. GH-4-79, which started on 10 July 1979 and concluded on 9 August 1979.

The proceedings relating to the prebuilding of the southern portion of the United States segments of the Alaska Highway Gas Pipeline System, i.e., the Northern Border (or eastern leg) facilities in the United States and the western leg facilities in the United States are in progress under Docket No. CP78-123 et al. before the United States Federal Energy Regulatory Commission.

2. MAJOR ISSUES AFFECTING TARIFF DESIGN

Special circumstances arise in the consideration of the tolls and tariffs that would apply to the transmission of Alberta natural gas through the "prebuild" section of the Foothills (Yukon) pipeline when only those facilities would be in operation, i.e. before Alaska gas began to flow through the mainline. Those special circumstances arise from the purposes of prebuilding, which are primarily: to reduce the cost of shipping Alaska gas over the life of the whole pipeline; and also to significantly assist the financing of the main line. In this latter respect, the pipeline company could use the cash flow available from a full cost of service tariff applicable to the transmission of Alberta gas before Alaska gas flows.

The key issues in relation to the "prebuild" tariff are:

- The "prebuild" facilities will not be used to their full design capacity when moving Alberta gas, resulting in a higher unit transportation cost before Alaska gas is flowing. Who should absorb this higher unit transportation cost in the initial period, the United States consumer or the Alberta producer?
- Are the Canadian and United States tariffs for "prebuild" facilities relatively compatible?

- Is there a need for minimum bill and interim rate provisions similar to those approved for the mainline?
- Should the tariff start after the "prebuild" section is ready for service, but before Alberta gas begins to flow?

The Alaska Highway Gas Pipeline Project is primarily intended to serve natural gas consumers and producers in the United States. Prebuilding provides the opportunity for United States consumers to obtain Alberta gas before Alaska gas is available to them. Therefore it would be appropriate that the United States consumer absorb the higher unit transportation cost before Alaska gas is flowing. This higher initial transmission cost will be more than fully compensated by a significantly reduced unit cost of transportation for Alaska gas.

The Board supports the view that, in the long run, prebuilding would significantly reduce the costs of shipping Alaska gas. This can be illustrated in the situation where the western leg is built four years early (i.e., an in-service date of 1 November 1980 versus 1 November 1984). This should result in a rate base in 1984 for the western leg in Canada that is approximately 30 to 40 percent lower than if no early construction were undertaken (assuming depreciation at four per cent and inflation in the order of six per cent). For the eastern leg in Canada, under similar assumptions, but with a three-year time lag, the reduction in the rate base would be

about 25 per cent. As depreciation, return, and income taxes - all of which are directly related to rate base - constitute over 80 per cent of the cost of service, the benefits of prebuilding facilities would appear to be considerable over the period of 20 years or more during which Alaska gas is being shipped. There is, of course, a cost penalty in the "prebuild" period, i.e., before Alaska gas flows, because the pipeline would be transmitting lower volumes than those when Alaska gas is being shipped and, consequently, the cost per Mcf would be higher during this period. However, in the view of the Board, the 20 to 25 year benefits would greatly exceed the 3 to 4 year cost penalty.

As a corollary to the foregoing, it would appear to be inappropriate that Alberta producers supplying the gas for transportation through the "prebuild" facilities should have to absorb the effect of a higher cost of service in order to convey a benefit to U.S. customers. This is evident if compared to a situation where only new exports of Alberta gas would be considered. In that case, the facilities to be built to carry that gas would be designed to minimize the cost of transporting the new Alberta gas exports, and not to pave the way for a system designed to minimize the cost of transporting Alaska gas. It should also be noted that there have been no assurances that regulatory and other delays in the United

States, which have resulted in a 22-months* delay in the completion date for the mainline, will not continue. It would be unfair that Alberta producers should bear the costs of any further delays in the United States in connecting Alaska gas to markets.

If another purpose of prebuilding is to generate cash to assist in financing the mainline, then a full cost of service tariff would appear to be preferable during the whole of the "prebuild" period, i.e., until Alaska gas flows. Accordingly, the Board will not require a minimum bill or interim rate during the "prebuild" period, since the problem associated with the ability of the market to absorb the large volumes of Alaska gas will likely be much less severe when shipping the significantly smaller volumes of Alberta gas.

If United States shippers are to pay the additional cost per Mcf of transmitting Alberta gas through "prebuild" facilities, and if Foothills (Yukon) requires a full cost of service tariff throughout the "prebuild" period, it would appear that the international border price for Alberta gas transmitted through "prebuild" facilities should reflect the full transportation cost on these facilities.

2.1 Pricing Regime of Natural Gas Exported Through "Prebuild" Facilities

The pricing of natural gas is outside the scope of this hearing. However, it is difficult to visualize the approval of the form and content of a proposed tariff as an appropriate method to use in the determination of just and reasonable tolls

* The completion date for the mainline is now proposed to be 1 November 1984 instead of 1 January 1983 as set out in the Canada - U.S. Agreement.

and tariffs for the movement of Alberta gas through the "prebuild" facilities, in the absence of knowledge of the pricing regime applicable to gas exported through those facilities. For the purposes of these Reasons for Decision, the Board has assumed that the pricing regime will provide for recovery, or substantial recovery, of the higher unit costs of transmission in the "prebuild" period. However, should another pricing regime be instituted, the Board might find it appropriate to reconsider its decision in this hearing.

Foothills (Yukon) urged, in argument, that the question of pricing be left unresolved for some time until all the factors needed to assess the situation would be known. The Board disagrees. Experience indicates that this process takes time, because the establishment of an export price is a complex matter involving regulatory authorities and governments on both sides of the border. Also, removal of uncertainty on pricing would facilitate early resolution of many of the complex problems to be overcome before construction can begin, such as financing and the assurance of the tracking of prices to the ultimate consumers. In the Board's view, agreement at an early date on the pricing principles to be applied to new exports of Alberta gas is imperative.

The pricing principles should be simple, well-understood, and easy to determine.

One approach would be to establish a price at the Alberta border equivalent to the net-back from existing

exports.* The price at the international boundary would then be the average Alberta border price** for gas exported under existing licences plus the Foothills (Yukon) toll to either Kingsgate, B.C. or Monchy, Saskatchewan (the exports points of the western and eastern legs respectively). This approach would have the merit of treating the toll in Canada in the same way as the proposed toll in the United States, i.e., an "add-on" to the price of the gas. It is also similar to the toll for Alaska gas, which is essentially a cost of service "add-on" to the price of Alaska gas in Alaska.

As an alternative, the unit costs in the "prebuild" period that are in excess of those when Alaska gas flows could be averaged for both the eastern and western legs in Canada and added to the normal export price.

In argument, Foothills (Yukon) indicated another approach based on comparing the cost of shipping new exports on Foothills (Yukon) "prebuild" facilities with the cost of transmitting new exports on other new facilities in Canada.

* The Alberta border price for existing exports might, for this purpose, need to be reduced to reflect that Alberta Gas Trunk Line carries the gas to the Alberta border, whereas for gas exported on "prebuild" facilities, Foothills (Alta.) will receive the gas inside Alberta, but the toll on Foothills (Alta.) would be deemed to occur outside of Alberta. (The transmission of gas by Foothills (Alta.) is not provided for in the Federal/Alberta Natural Gas Pricing Agreement, but the policy witness for Foothills (Yukon) indicated that deeming Foothills (Alta.) to be outside Alberta was likely to be acceptable to the Alberta Government.)

** The average Alberta border price is the average net-back at the Alberta border from existing exports of Alberta gas. It is the average price per MMBtu derived by deducting from the price at the international boundary the cost of transmission from the Alberta border to the international boundary as set forth in orders under the Petroleum Administration Act.

However, these estimates are subject to uncertainties related to estimates of capital and operating costs for new alternative facilities and of their economic life. This approach also disregards the interrelationship of the "prebuild" and the main line.

As was mentioned previously, the pricing of natural gas is a matter outside the scope of these proceedings. However, the Board believes it is important to recognize that special considerations should apply when dealing with the export price of gas transmitted through "prebuild" facilities.

2.2 Compatibility of United States and Canadian Tariffs

The Board is also concerned that the treatment of tolls and tariffs on the Alaska Highway Pipeline System both in Canada and the United States be similar, although this concern may disappear when the Federal Energy Regulatory Commission issues decisions on "prebuild" facilities and the "prebuild" tariff.

There are two aspects associated with the Board's concern. The first is that the tariff be a full cost of service tariff borne by the customer. This is the basis of the Northern Border proposal in the United States and would occur in Canada if the principles of pricing assumed in these Reasons for Decision were to apply.

The second relates to the rate of depreciation. Although Foothills (Yukon) applied for a normal depreciation rate of 3.57* percent over 28 years (3 years for "prebuild" facilities and an additional 25 years when the rest of the pipeline comes into operation), the Board understands that

* subparagraph 8.4(b) - Foothills (Yukon) subsidiaries' Rate Schedule

Northern Border has applied for a depreciation rate of 8.3 percent with a possibility of a partially-offsetting adjustment later, and that the depreciation on the new facilities on the United States western leg would bear a similar rate. Northern Border indicated that this rate was based on the need for free-standing (i.e., independent) financing in relation to the proposed 12-year export contract with Pan-Alberta. However, Foothills (Yukon) affirmed that it intends, as required by Condition 12 of Schedule III of the Northern Pipeline Act, to demonstrate that financing of the mainline had been obtained, before construction of "prebuild" facilities could begin.

As the construction of Northern Border is contingent on prebuilding in Canada, and as the Canadian sections proposed to be prebuilt cannot be constructed without first demonstrating the financeability of the whole pipeline in Canada, it would appear that free-standing financing of Northern Border is not essential. The Board, however, has no objection to a depreciation rate of say 8.3 percent in the early years for Foothills (Yukon) if it is passed on to United States purchasers. The Board would be concerned, however, if "prebuild" facilities in the United States were permitted to use an 8.3 percent depreciation rate, and if, at the same time, "tracking" were refused with respect to a similar rate of depreciation on Canadian "prebuild" facilities.

2.3 Major Tariff Issues

Having reviewed the major implications on pricing and compatibility of American and Canadian tariffs and tolls for "prebuild" facilities, decisions can be made on specific aspects of the proposed "prebuild" tariff of Foothills (Yukon).

2.3.1 Start of the Tariff

During Phase I, Foothills (Yukon) had stated that when the pipeline in Canada was ready to provide service, Foothills (Yukon), as a Canadian company, should be fully paid for its services. Foothills (Yukon) was concerned that regulatory procedures in the United States could delay the completion of connecting United States segments of the pipeline, delay the flow of gas, and thereby impair the financeability of the project. With respect to "prebuild" facilities, Foothills (Yukon) indicated that the possibility of any significant delay in the completion of connecting United States facilities was remote. Foothills (Yukon) stated that although it preferred to have the tariff start when the "prebuild" facilities were ready to provide service, it could accept the tariff commencing when Alberta gas began to flow.

The Board holds the view that starting the "prebuild" tariff when Alberta gas begins to flow would eliminate certain complexities inherent in the Foothills (Yukon) proposal. The Board requires that a clause based on starting the "prebuild" tariff when gas begins to flow be inserted in the Foothills

(Yukon) tariff. If unforeseen circumstances warrant a review of this aspect of the decision, Foothills (Yukon) could make appropriate application to the Board at that time.

2.3.2 Minimum Bill and Interim Rate

As noted previously, the Board finds that a full cost of service tariff should be in effect for the whole of the "prebuild" operating period, i.e. until Alaska gas begins to flow, without any provisions for a minimum bill or interim rate.

2.3.3 Depreciation

As mentioned previously, Foothills (Yukon) applied for a 3.57 percent rate of depreciation on "prebuild" facilities for a 28-year period based on 3 years of shipment of Alberta gas before Alaska gas flows, and a 25-year service contract for the transportation of Alaska gas. However, Foothills (Yukon) conceded that no transportation contracts were signed and that the Exxon contracts for the sale of Alaska gas were for 20 years. In addition, Foothills (Yukon) admitted that it would be, to say the least, unusual for companies to sign transportation contracts for a longer period than that contained in gas sales contracts.

The Board does not believe that extreme precision is necessary in setting depreciation rates in this instance, particularly as they can be adjusted in the light of later developments. In the circumstances of this case, the Board finds that a depreciation rate of 4 percent is appropriate

and should be substituted for the rate of 3.57 percent contained in paragraph 8.5(b) of the rate schedule of the subsidiaries of Foothills (Yukon); this rate is authorized for accounting purposes.

Foothills (Yukon) indicated that its "prebuild" tariff is to expire when Alaska gas begins to flow. It, however, proposed in that tariff that the 3.57 percent depreciation rate would cease after four years and that a rate applicable to the remaining life of the short-term gas exports using the "prebuild" facilities would be substituted as a protection against failure to build the remainder of the pipeline. Towards the end of the proceedings, Foothills (Yukon) amended its proposal to include an option for it to waive that clause. Since assurance of financing and completion of the main line are prerequisites to the construction of the pipeline, the risk of non-completion of the main line is, to say the least, remote. Accordingly, the Board does not believe it is necessary to provide for a depreciation rate that is contingent upon completion of the whole pipeline. As a result, the 4 percent depreciation rate will continue until Alaska gas flows. The Board understands the concern of Foothills (Yukon), but this would not, in the Board's view, be eliminated by the tariff clause as proposed. However, if some occurrence were to preclude the completion of the main line, then special considerations would apply and extraordinary corrective actions would be warranted.

2.3.4 Tariff for Foothills (South B.C.)

Under the proposed Gas Transportation Agreement between Foothills Pipe Lines (South B.C.) Ltd. and Alberta Natural Gas Company Ltd., it is provided that Foothills (South B.C.) would use ANG's pipeline in the event that prebuilding in Zone 8 takes the form of partial looping of ANG's system by Foothills (South B.C.). Under this Agreement gas transportation service will be provided by ANG similar to that already available to ANG's existing shippers under their current Gas Transportation Contract. It will be quite separate from the Operating Agreement between Foothills (South B.C.) and ANG, whereby ANG will provide operating and maintenance services on Foothills (South B.C.)'s pipeline, "prebuild" or otherwise.

The economic advantages of constructing discontinuous segments of the Foothills (South B.C.) pipeline and using them in association with ANG's pipeline and then completing a continuous Foothills (South B.C.) pipeline later compared with initially constructing a continuous pipeline for Foothills (South B.C.) came into question in this Hearing. It was established that the estimated capital cost of constructing partial loops for Foothills (South B.C.) and completing the looping three or four years later would be \$125.5 million, which is approximately 21.3 per cent higher than if a continuous new pipeline was built from the start. This would arise because construction of a discontinuous Foothills (South B.C.) facility initially would require completion of the line at a later date, increasing the overall construction cost because of inflation. The Board requested

Foothills (Yukon) to file an exhibit comparing the tolls on these two systems on each basis over a period of 29 years, being four years carrying Alberta gas and 25 years of Alaska gas. The comparison indicated a cost of service advantage of \$23.5 million in the first four years for the looping proposal, but an advantage of \$122.5 million in later years if a continuous line was built initially. If a compound interest factor of 20.5 per cent were used, the later benefit of the continuous line would offset the initial advantage of the looping proposal. The present value of the two alternatives would then be the same. This seems to indicate that the benefits to be derived from the later savings significantly outweigh the disadvantage of not looping ANG's facilities initially.

During the hearing, a witness for Foothills (South B.C.) admitted that the choice of looping was based on an analysis of the cost advantage of looping in the early years only. Moreover, the policy witness for Foothills (Yukon) indicated that the new evidence in favour of a continuous pipeline was compelling, and in argument Foothills (Yukon) stated:

"At the moment what is before you is a looped line and we would leave it at that; but if the Board indicated its preference for a single line and indicated to us that the incremental costs could in some way be assessed against U.S. customers, we would convert to that". (Transcript 1670-1671)

In any event, the facilities to be constructed by Foothills (South B.C.) are a matter within the jurisdiction of

the Northern Pipeline Agency, and are not an issue to be decided in these tariff proceedings. However, the Board does wish to record the fact that the evidence in Phase II of this hearing appeared to favour the construction of a complete line initially over looping of the ANG system. The Board also notes the possibility that complex tariff issues could arise if ANG facilities were used. Moreover, although ANG has been requested to provide information for the purpose of the "prebuild" tariff, that company has not yet come under active regulation by the Board under Part IV of the National Energy Board Act and new unforeseen issues could arise. As a final observation, the Board has assumed in these Reasons for Decision that the higher unit costs would be borne by United States customers.

As an interim step, pending a final decision, the Board is prepared to approve in principle the Gas Transportation Agreement governing the charges for the use of ANG facilities in respect to the uncompleted part of the Foothills (South B.C.) pipeline. This approval is subject to on modifications which might become necessary arising from forthcoming regulatory proceedings with respect to the tolls and tariffs of Alberta Natural Gas.

2.3.5 Transition to the Mainline Tariff

Under subsection 3.1 of the Service Agreements contained in the "prebuild" tariff the term of the agreement is identified as being "for a period of thirteen (13) years".

Notwithstanding that, the following subsection, 3.2, provides that if during that period the mainline tariff for the movement of Alaskan gas through the whole system takes effect, then the parties to the Phase I will draw up a new tariff to replace it "which shall be identical in form and substance to the ... Gas Transportation Tariff", that being the mainline tariff.

Foothills (Yukon) stated in the hearing that the "prebuild" tariff would cease when Alaska gas began to flow. The Board has always envisaged that there would be a single tariff for the mainline when this happens as dealt with in the Phase I Decision. However, this mainline tariff may need adapting if Alberta gas continues to flow in the system at that time. The language in the paragraph above appears to envisage a new tariff for Alberta gas. Foothills (Yukon) should clarify this situation in Phase III.

Bearing in mind that the Board's Reasons for Decision following the first phase of this hearing directed that the mainline tariff be revised to contain provision for a Minimum Bill and an Interim Rate to apply during the initial period of operation of the mainline, inadequate consideration has as yet been given to the situation if at the same time Alberta gas continues to be transported in the pipeline. That issue should also be addressed during Phase III of this hearing to enable the Board to determine what changes are needed in the mainline tariff and to subsections 3.1 and 3.2 dealing with the termination of the "prebuild" tariff.

Clauses 3.1 and 3.2 are not approved at this time pending clarification of the above issues in Phase III.

3. OTHER TARIFF ISSUES

There are a number of other items in which some difference exists between the form and content of the gas transportation tariff for the mainline, considered during Phase I of this hearing, and that for the "prebuild" period of operation.

3.1 Foothills (Yukon) Administrative Charge

During Phase I, it was established that the Foothills (Yukon) administrative charge to be allocated to each subsidiary company zone under the cost of service tariff would cover the administration of the tariff, including the flow-through of budget information, and the processing of billings and payments.

In Phase II, it was confirmed that during the period of operation of the "prebuild" facilities, Foothills (Yukon) would incur similar administration expenses in respect of the "prebuild" tariff. However, in addition, it was established that there would be project management expenses incurred after 1 November 1981 that would be capitalized, including expenses of the Northern Pipeline Agency and the National Energy Board, along with AFUDC.

On reviewing the evidence on this matter, the Board finds that insufficient information has been provided concerning the expenses that will be included in Foothills (Yukon) administrative charge for the operation of the pipeline during the "prebuild" period as well as when Alaska gas is flowing. For example, the record is unclear on the proposed treatment of expenses capitalized during the period from 1 January 1979 to

1 November 1981 and their identification for rate base purposes with the "prebuild" or mainline operation. Also, when the "prebuild" facilities are in operation, construction of the mainline will be underway, including additional facilities within the "prebuild" zones. With respect to both the mainline and "prebuild" tariffs, the Board wishes to establish a clear understanding of what the functional responsibilities of Foothills (Yukon) will be and how related costs, including bases and methods of allocation, will be treated during the following periods:

- In respect of the period from 1 January 1979 to commencement of construction of "prebuild" facilities, Foothills should develop proposals for allocation, to subsidiary companies and zones, of capital costs incurred by Foothills (Yukon).
- In addition, in respect of the period during construction of the "prebuild" facilities, Foothills should develop proposals for the segregation of costs between those applicable to the "prebuild" facilities and those pertaining to construction of the mainline.
- In addition, in respect of the period during operation of the "prebuild" facilities, Foothills should develop proposals for segregating Foothills (Yukon) expenses by cost element between operation of "prebuild" facilities and ongoing construction of the mainline, as well as proposals for allocating by zone each element of the costs pertaining to operations of "prebuild" facilities as segregated above for recovery as a component of the cost of service under the "prebuild" tariff.

Parties should address these issues in the Phase III proceedings.

3.2 Sustained Outage of Over 30 Days

On pages 17 and 18 of its Reasons for Decision of Phase I of this hearing, the Board discussed the possibility of a sustained outage of more than 30 days in the operating phase and the provision that would be required in the mainline tariff

for a deferral as revenue to Foothills (Yukon) of the return of common equity collected under the cost of service tariff during such an interruption of service. Following an enquiry into the cause of the failure to provide service, the Board would make a ruling with respect to the disposition of the amount contained in the deferred revenue account.

Although it reserved its position on the specific wording of the clause to be inserted in the mainline tariff, Foothills (Yukon) did acknowledge in evidence during the Phase II proceedings its willingness to accept responsibility for service interruptions in excess of 30 days on the "prebuild" section of the pipeline where Foothills (Yukon) is at fault. Accordingly, the Board will require that a clause similar to that provided for the mainline tariff be inserted in the "prebuild" tariff currently under consideration. The wording* shall be as follows:

"(1) In the event of a total interruption of service to a shipper for more than thirty consecutive days on the eastern or western segment of the prebuilt portions of the pipeline in Canada, Foothills (Yukon) shall continue to collect the cost of service, as calculated under the rate schedules, for every day that the interruption continues, but, commencing on the 31st day of such

* The Board is aware that under Section 17 of the National Energy Board Act, Foothills (Yukon) has applied for a review of this same wording in the Phase I Decision on the mainline tariff. The review will take place after the release of this Phase II Decision. If after the review the wording is changed for the mainline tariff, a similar change will be made for the "prebuild" tariff.

interruption, that component of the cost of service charge in the tariff to that shipper equivalent to the return of equity in respect of the segment on which service has been interrupted shall be held in a deferred revenue account."

"(2) The disposition of the amount contained in the deferred revenue account referred to in subsection (1) shall be determined by the Board."

"(3) Any amount to be amortized as a credit to a shipper in a subsequent period will be increased by the addition of interest as allowed in paragraph 5.53 of the General Terms and Conditions, for an overpayment."

3.3 Provision for Additional Shippers

In filing the form and content of the proposed "prebuild" gas transportation tariff, Foothills (Yukon) contemplated that only a single shipper, Pan-Alberta Gas Ltd., would use the prebuilt southern portions of the Canadian segment of the Alaska Highway Gas Pipeline System. However, counsel for Foothills (Yukon) acknowledged in argument that there may be more than one shipper on the "prebuild" section. In such an eventuality, Foothills agreed to make the appropriate wording changes so that the tariff would become a multiple-shipper document. Foothills (Yukon) confirmed that most of the provisions, in particular the method of cost allocation between shippers and the method of allocating Company Use Gas, would be similar to those contained in the Gas Transportation Tariff for the mainline. Those provisions in respect of the mainline tariff were reviewed during the first phase of this hearing and, except as noted in the Phase I Reasons for Decision, were found to be acceptable.

Counsel for Foothills (Yukon) proposed in argument, subject to Board approval, to first await the Board's Phase II decision and then to file with the Board a revised "prebuild" tariff that would incorporate all the required changes including provision for more than one shipper.

The Board finds the approach proposed by Foothills (Yukon) to be acceptable and requests the Company to file, at a date to be specified by the Board, a revised "prebuild" gas transportation tariff.

3.4 Allocation of Zone Cost of Service

During Phase I, Foothills (Yukon) proposed to allocate the zone cost of service on the mainline among the shippers utilizing such zone based on the "Mcf-mile" method of allocation. In its reasons for decision, the Board indicated the question of an Mcf-mile allocation in relation to Alberta gas would be dealt with in Phase II.

During Phase II, Foothills (Yukon) undertook to ensure that provision contained in the mainline tariff in respect of allocation of zone cost of service among shippers would also apply mutatis mutandis to the "prebuild" tariff. This undertaking was found satisfactory to the Board.

The adoption of the "Mcf-mile" method is not consistent with the Canada-U.S. Agreement in its present form, since that agreement did not provide for gas entering and leaving the pipeline within a zone. This is the case for

Alaska gas dropped off for northern communities and replaced with Canadian gas further south as well as for any new exports of Alberta gas. An exchange of notes between Canadian and United States authorities is being considered to provide for these situations.

4. GENERAL

The topics covered to this point have related specifically to the form and content of the "prebuild" gas transportation tariff. Some of these topics have arisen as a result of the Board's Reasons for Decision on Phase I of this hearing. There are two other items to be discussed, which have arisen either from the Phase I Decision or from events that have occurred since that document was issued in July.

4.1 Method of Regulation

The Order set forth in Appendix C to the Board's Phase I Decision contained "The National Energy Board's Method for Regulating the Tolls and Tariffs of the Foothills (Yukon) Pipeline". During Phase II of the hearing, Foothills (Yukon) indicated that the scheme contained in the Order was acceptable to it both for the mainline and the "prebuild" facilities. However, one problem was identified by the Canadian Petroleum Association.

Counsel for CPA drew the Board's attention to that part of the method of regulation dealing with "Interested Parties". He noted that the provisions of that section appeared to be limited to representative consumer interest groups and to shippers on the pipeline. Counsel requested that the wording of that section be broadened to include producer groups as interested parties in order to allow for the inclusion of members of CPA who operate in Alberta and

who, if the "net-back" provisions in the existing pricing regime were to apply, would be indirectly affected by the tolls and tariffs to be charged by Foothills (Yukon) for the movement of Alberta gas.

The Board agrees with the concern of the Canadian Petroleum Association and directs that paragraph 3 at the bottom of page 2 of the National Energy Board's Method for Regulating the Tolls and Tariffs of the Foothills (Yukon) Pipeline" be revoked and the following be substituted:

"Interested Parties

3. Representative consumer-interest groups and representative Canadian producer-interest groups may, upon application, be granted interested party status in all matters related to tolls and tariffs subsequent to the hearing called by the Board's Order No. RH-2-79. Any shipper will automatically be considered an interested party".

4.2 Tariff Amendments

On 24 July 1979, Foothills (Yukon) filed "Tariff Amendments Arising from Phase I of the NEB Hearing on Tariffs, Tolls, Financing and Other Related Matters of Foothills Pipe Lines (Yukon) Ltd." While a revised tariff for the mainline has yet to be filed by Foothills (Yukon) at a date to be specified by the Board, the Board has the following observations on this document.

Many of those amendments were to correct typographical errors both in the mainline tariff and in the "prebuild" tariff; the Board accepts such amendments without comment.

Two of the remaining amendments, namely, paragraphs 3.2.2, Tender Deficiency Clause, and 3.2.3, Make-up Gas Transportation Payment, are in agreement with the Decision reached following Phase I, and are therefore accepted without comment.

During Phase I of this hearing, discussion took place on the need for tracking the cost of Company Use Gas and Gas Lost or Unaccounted For as a component of the cost of service, though no provision was contained in the tariff as filed. In its Reasons for Decision on Phase I, the Board drew attention to the contents of the Canada-U.S. Agreement where it was envisaged that shippers would provide their own gas for use as fuel, and the Board expressed the belief that the need to account for the cost of fuel would only arise if Alberta gas were used. The Board indicated it would deal with the matter of costs of fuel gas when Foothills (Yukon) clarified its position on this matter. In the meantime, Foothills (Yukon) filed amendments to both the mainline tariff and the "prebuild" tariff by adding the appropriate account numbers under Operating Expenses to facilitate recording this expense if and when it is allowed. The Board accepts this amendment for inclusion in the "prebuild" tariff but, since Foothills (Yukon) has not yet clarified its position, denies it for the mainline tariff.

In subparagraph 3.2.7 of the Board's Phase I Decision, under the subject, Reduction in Zone Allocable Share, the Board drew attention to the outstanding requirement for a revision to

Section 16 of the General Terms and Conditions dealing with that specific subject. The amendment to Section 16 filed and examined in the course of the Phase II proceedings is accepted by the Board.

5. DISPOSITION

"The National Energy Board's Method for Regulating the Tolls and Tariffs of the Foothills (Yukon) Pipeline" which forms part of the Order No. TG-1-79 is to be amended:

1. to make it clear that it applies to the period when the "prebuild" tariff applies as well as the mainline tariff; and
2. Clause 3 on Interested Parties is to be revoked and the following substituted therefor:

"Interested Parties

3. Representative consumer-interest groups and representative Canadian producer-interest groups may, upon application, be granted interested party status in all matters related to tolls and tariffs subsequent to the hearing called by the Board's Order No. RH-2-79. Any shipper will automatically be considered an interested party."

The Board finds it desirable that a single tariff be established in Canada for all Canadian segments of the southern portion of the Foothills (Yukon) pipeline proposed to be prebuilt. Pursuant to subsection 31(2) of the Northern Pipeline Act, the Board requires Foothills (Yukon) by virtue of paragraph 1 of Order No. TG-4-79, which appears as Appendix B of these Reasons for Decision to file such a tariff at a date to be specified by the Board, in the form filed and dated April 1979, as amended by or qualified in these Reasons for Decision.

The Board approves, pursuant to Section 35 of the Northern Pipeline Act, the form and content of the Foothills (Yukon) tariff for the "prebuild" section of the Foothills (Yukon) pipeline in the form filed and dated April 1979, including the form and content of the tariff for the subsidiaries of Foothills (Yukon), together with supporting agreements and schedules, subject to:

- (a) Foothills (Yukon) amending its tariff in a form and content satisfactory to the Board in conformity with these Reasons for Decision;
- (b) Any further modifications that may be required by:
 - (i) a pricing regime for the export of gas through "prebuild" facilities that, in the opinion of the Board is significantly different from that which it is assumed will prevail in these Reasons for Decision;
 - (ii) the decision or decisions of the FERC relating to the tolls and tariffs applicable to "prebuild" facilities in the United States;
 - (iii) should a continuous pipeline not be constructed by Foothills (South B.C.), matters arising out of the public hearing into the tolls and tariffs of Alberta Natural Gas;
 - (iv) matters arising in Phase III of the hearing including the allocation of Foothills (Yukon) administrative charges;

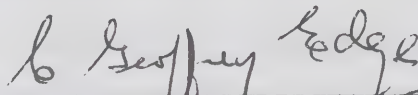
- (v) changes arising from the execution of service agreements for the transportation of gas between Foothills (Yukon) and the shippers;
- (vi) changes arising from the execution of service agreements for the transportation of gas between Foothills (Yukon) and its subsidiaries;
- (vii) changes arising from the execution of contracts for the transportation of gas on the facilities of Alberta Natural Gas between Foothills (South B.C.) and Alberta Natural Gas;
- (viii) changes arising from the execution of construction management agreements and operating agreements in a form already filed with the Board, or as amended in a form satisfactory to the Board;
- (ix) modifications deemed necessary by the Board as a result of definitive financing plans; and
- (x) matters not dealt with in these proceedings.

Paragraph 2 of Order No. TG-4-79 specifically provides for the approval of the form and content of the Foothills (Yukon) "prebuild" tariff in the form filed and dated April 1979, subject to the qualifications enumerated above.

The Board approves a depreciation rate of four percent for accounting purposes during the period when the "prebuild" tariff is in effect. This would apply to the

assets identified in subparagraph 8.4(b) of Foothills (Yukon) subsidiaries' Rate Schedule, Sheet No. 106. Paragraph 3 of Order No. TG-4-79 specifically provides for such approval.

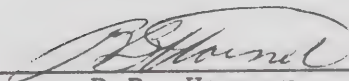
The foregoing chapters, together with Order No. TG-4-79 and the Board's decision on "The Method for Regulating the Tolls and Tariffs of the Foothills (Yukon) Pipeline" attached and forming part of Order No. TG-1-79 as amended by Order No. AO-1-TG-1-79, set forth our Reasons for Decision and our Decision in this matter.



C. Geoffrey Edge
Presiding Member



L.M. Thur
Member



R.B. Horner
Member

NATIONAL ENERGY BOARD



OFFICE NATIONAL DE L'ÉNERGIE

ORDER NO. RH-2-79

IN THE MATTER OF the National Energy Board Act
and the Regulations made thereunder, and the
Northern Pipeline Act; and

IN THE MATTER OF a public hearing respecting
tariffs, tolls to be charged by Foothills Pipeline
(Yukon) Ltd. (hereinafter referred to as
Foothills), the financing of the pipeline, and
other related matters. File No.: 1510-2-2.

B E F O R E the Board on Thursday, the 12th day of April, 1979.

WHEREAS pursuant to the National Energy Board Act, the
tolls to be charged by Foothills must be just and reasonable,

AND WHEREAS pursuant to the Northern Pipeline Act, the
Board may approve the form and content of a tariff filed at the
time the financing of the pipeline is being considered,

AND WHEREAS Foothills has filed a submission on the
form and content of the tariff for the pipeline dated 21 March
1979 and, at the request of the Board, additional information
dated 21 March 1979,

AND WHEREAS Foothills has applied to have certain
expenses incurred prior to 1 January 1979 included in its rate
base,

AND WHEREAS the National Energy Board has issued a
"Proposed Method for the Regulation of Tolls and Tariffs of the
Foothills Pipeline", on 18 April 1979, and wishes to receive the
views of Foothills and interested parties on this proposal,

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AND WHEREAS the National Energy Board has issued a "Proposed Approach to Incentive Rate of Return for the Northern Pipeline" on 5 October 1978 and has received submissions on it and reissued its "Proposed Approach to Incentive Rate of Return for the Northern Pipeline" on 24 January 1979, and deems it desirable to hold a public hearing for the purpose of issuing regulations on the Incentive Rate of Return scheme,

AND WHEREAS Foothills has announced its intent to prebuild the southern segments of the pipeline, for which segments the form and content of the tariff and the tolls to be charged during the initial period may be different from those during the later period when Alaskan gas is flowing,

AND WHEREAS the financing of the pipeline including any prebuilt segments has not yet been established to the satisfaction of the Board pursuant to condition 12 of Schedule III of the Northern Pipeline Act,

IT IS ORDERED THAT

1. A public hearing shall be held in the Hearing Room of the National Energy Board, Trebla Building, 473 Albert Street, in the City of Ottawa, in the Province of Ontario, commencing on Tuesday the 12th day of June, 1979, at 9:30 a.m. local time, for the purpose of hearing evidence respecting tariffs and tolls to be charged by Foothills, the Incentive Rate of Return scheme,

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financing of the pipeline, and related matters. Such proceedings will be conducted in either of the two official languages, and simultaneous interpretation will be provided should a party to the proceedings request such facilities in his intervention.

2. Evidence and submissions shall be heard in three Phases:

PHASE I -

- (a) to enable the Board to determine whether the National Energy Board's Proposed Method for the Regulation of Tolls and Tariffs of the Foothills Pipeline, dated 18 April 1979, is an appropriate method for regulating Foothills' transportation tolls and charges; and
- (b) to enable the Board to determine whether the form and content of the Proposed Tariff, filed on 21 March 1979 by Foothills Pipe Lines (Yukon) Ltd., is an appropriate method to use in the determination of just and reasonable transportation tolls for the movement of gas through Zones 1 to 11 of the Canadian Segment of the Alaska Highway Gas Pipeline System;
- (c) to enable the Board, upon reading Foothills' application dated 12 April 1979, to determine whether certain preliminary expenditures made up to 31 December 1978, as recorded on the books of account of The Alberta Gas Trunk Line Company Limited, Westcoast Transmission Company Limited, Alberta Natural Gas Company Ltd., Foothills Pipe

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Lines Ltd. and Foothills Pipe Lines (Yukon) Ltd. and its subsidiary companies, up to that date, qualify for inclusion in the Rate Base of Foothills Pipe Lines (Yukon) Ltd. and its subsidiary companies for the Alaska Highway Gas Pipeline System in Canada;

PHASE II

- (d) to enable the Board to determine whether the form and content of the Proposed Tariff, to be filed by Foothills by 1 May 1979, is an appropriate method to use in the determination of just and reasonable tolls for the movement of Alberta gas through the proposed southern portion (the portion to be prebuilt) of the Alaska Highway Gas Pipeline System.

PHASE III -

- (e) to finalize the approach to Incentive Rate of Return for the Northern Pipeline; and
- (f) to establish to the satisfaction of the Board that financing has been obtained for the pipeline and for any prebuilt sections of the pipeline, pursuant to Condition 12 of Schedule III of the Northern Pipeline Act.

The date for the commencement of Phase II and Phase III will be announced later.

3. Foothills shall serve, as soon as possible, but not later than 15 May 1979, a true copy of the form and content of the

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tariff for the pipeline; the form and content of the tariff relating to prebuilt sections of the pipeline; the Board's Proposed Method for the Regulation of Tolls and Tariffs of the Foothills Pipeline, dated 18 April 1979; Foothills' application, dated 12 April 1979, which includes statements of preliminary expenditures on the Alaska Highway Gas Pipeline Project, as recorded on the books of account of the companies referred to in paragraph 2(a), together with a copy of the NEB audit report on these expenditures; the Board's Proposed Approach to Incentive Rate of Return for the Northern Pipeline, dated 24 January 1979; and a true copy of this Order upon all of its potential shippers and customers in Canada and the United States, upon the Attorneys-General of the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, and Quebec, upon the Commissioner of the Yukon and the Commissioner of the Northwest Territories, and upon the United States Federal Energy Regulatory Commission, and, as soon as may be possible, upon those persons who have intervened pursuant to paragraph (5) hereof, and Foothills shall file proof of service thereof with the Board at the opening of the hearing.

4. Notice of the said hearing in the form prescribed by the Board, as set forth in the Notice attached to and forming part of this Order, shall be published on or before the 27th day of April, 1979, in one issue of each of "The Colonist" in the

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City of Victoria, in the Province of British Columbia; "The Herald" in the City of Calgary and "The Journal" in the City of Edmonton, both in the Province of Alberta; "The Leader-Post" in the City of Regina, in the Province of Saskatchewan; "The Free Press" in the City of Winnipeg, in the Province of Manitoba; "The Globe and Mail" and "The Financial Post" in the City of Toronto, and "The Citizen" and "Le Droit" in the City of Ottawa, all in the Province of Ontario; "The Gazette", "Le Devoir", and "Financial Times of Canada" in the City of Montreal, in the Province of Quebec; and as soon as may be possible in the Canada Gazette.

5. Any respondent or intervenor intending to oppose or intervene in the said hearing shall, on or before the 1st day of June 1979, file with the Secretary of the Board thirty (30) copies of a written statement, in either of the two official languages, containing his reply or submission, together with any supporting information, particulars or documents, which shall include a concise statement of the facts from which the nature of the respondent's or intervenor's interest in the proceedings may be determined, which may admit or deny any or all of the facts alleged in the submission and/or additional information filed by Foothills, and which shall be endorsed with the name and address of the respondent or intervenor or his solicitor to whom

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communications may be sent. Any respondent or intervenor shall, on or before the 1st day of June, 1979, serve three (3) copies of his reply or submission and supporting information, particulars or documents upon Foothills and one (1) copy each upon the Attorneys-General of the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Quebec, the Commissioner of the Yukon Territory, the Commissioner of the Northwest Territories, and the United States Federal Energy Regulatory Commission.

6. In order to make potential interested parties in the United States aware of the proceedings, the National Energy Board has served copies of the notice of this hearing on all parties of record in the United States Federal Regulatory Commission Docket CP 78-123 et al, a proceeding on the United States portion of the Alaska Highway Gas Pipeline Project.

7. The National Energy Board Rules of Practice and Procedure shall apply mutatis mutandis to the proceedings.

8. Any interested party may examine a copy of the submission and additional information filed by Foothills as well as the Board's documents referred to in this Order at the office of:

National Energy Board,
Trebla Building,
473 Albert Street,
Ottawa, Ontario
K1A 0E5

or at the following addresses:

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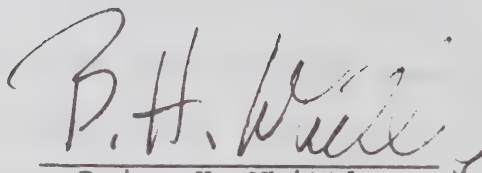
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Foothills Pipe Lines (Yukon) Ltd.,
1600 Bow Valley Square II,
205 - Fifth Avenue S.W.,
Calgary, Alberta
T2P 2W4

Alaska Gas Project Office,
Federal Energy Regulatory Commission,
941 North Capitol Street, N.E.,
Room 3004,
Washington, D.C.
20426

DATED at the City of Ottawa, in the Province of Ontario,
this 12th day of April, 1979.

NATIONAL ENERGY BOARD



Brian H. Whittle,
Secretary

NATIONAL ENERGY BOARD
NOTICE OF HEARING
IN THE MATTER OF TOLLS, TARIFFS AND FINANCING OF
FOOTHILLS PIPE LINES (YUKON) LTD.

WHEREAS pursuant to the National Energy Board Act, the tolls to be charged by Foothills must be just and reasonable,

AND WHEREAS pursuant to the Northern Pipeline Act, the Board may approve the form and content of a tariff filed at the time the financing of the pipeline is being considered,

AND WHEREAS Foothills has filed a submission on the form and content of the tariff for the pipeline dated 21 March 1979 and, at the request of the Board, additional information dated 21 March 1979,

AND WHEREAS Foothills has applied to have certain expenses incurred prior to 1 January 1979 included in its rate base;

AND WHEREAS the National Energy Board has issued a "Proposed Method for the Regulation of Tolls and Tariffs of the Foothills Pipeline", on 18 April 1979, and wishes to receive the views of Foothills and interested parties on this proposal,

AND WHEREAS the National Energy Board has issued a "Proposed Approach to Incentive Rate of Return for the Northern Pipeline" on 5 October 1978 and has received submissions on it and reissued its "Proposed Approach to Incentive Rate of Return for the Northern Pipeline" on 24 January 1979, and deems it desirable to hold a public hearing for the purpose of issuing regulations on the Incentive Rate of Return scheme,

- 2 -

AND WHEREAS Foothills has announced its intent to prebuild the southern segments of the pipeline, for which segments the form and content of the tariff and the tolls to be charged during the initial period may be different from those during the later period when Alaskan gas is flowing,

AND WHEREAS the financing of the pipeline including any prebuilt segments has not yet been established to the satisfaction of the Board pursuant to condition 12 of Schedule III of the Northern Pipeline Act,

TAKE NOTICE that the Board has ordered that a public hearing shall be held commencing on Tuesday, the 12th day of June, 1979, at 9:30 a.m. in the Hearing Room of the National Energy Board, Trebla Building, 473 Albert Street, in the City of Ottawa, in the Province of Ontario for the purpose of hearing evidence respecting tariffs and tolls charged by Foothills, the Incentive Rate of Return scheme, financing, and other related matters. Such proceeding will be conducted in either of the two official languages and simultaneous interpretation will be provided should a party to the proceedings request such facilities in his intervention.

AND THE BOARD HAS FURTHER ORDERED THAT:

1. Evidence and submissions shall be heard in three phases:

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PHASE I -

- (a) to enable the Board to determine whether the National Energy Board's Proposed Method for the Regulation of Tolls and Tariffs of the Foothills Pipeline dated 18 April 1979 is an appropriate regulatory method for regulating Foothills' transportation tolls and charges; and
- (b) to enable the Board to determine whether the form and content of the Proposed Tariff for the pipeline, filed on 21 March 1979 by Foothills Pipe Lines (Yukon) Ltd., is an appropriate method to use in the determination of just and reasonable transportation tolls for the movement of gas through Zones 1 to 11 of the Canadian Segment of the Alaska Highway Gas Pipeline System;
- (c) to enable the Board, upon reading Foothills application dated 12 April 1979, to determine whether certain preliminary expenditures made up to 31 December 1978, as recorded in the books of account of The Alberta Gas Trunk Line Company Limited, Westcoast Transmission Company Limited, Alberta Natural Gas Company Ltd., Foothills Pipe Lines Ltd. and Foothills Pipe Lines (Yukon) Ltd. and its subsidiary companies, up to that date, qualify for inclusion in the Rate Base of Foothills Pipe Lines (Yukon) Ltd. and its subsidiary companies for the Alaska Highway Gas Pipeline System in Canada;

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PHASE II -

- (d) to enable the Board to determine whether the form and content of the Proposed Tariff, to be filed by Foothills by 1 May 1979 is an appropriate method to use in the determination of just and reasonable tolls for the movement of Alberta gas through the proposed southern portion (the portion to be prebuilt) of the Alaska Highway Gas Pipeline System;

PHASE III -

- (e) to finalize the approach to Incentive Rate of Return for the Northern Pipeline; and
- (f) to establish to the satisfaction of the Board that financing has been obtained for the pipeline and for any prebuilt sections of the pipeline, pursuant to Condition 12 of Schedule III of the Northern Pipeline Act.

The date for the commencement of Phase II and Phase III will be announced later.

2. Any respondent or intervenor intending to oppose or intervene in the said hearing shall on or before the 1st day of June, 1979, file with the Secretary of the Board thirty (30) copies of a written statement, in either of the two official languages, containing his reply or submission together with any supporting information, particulars or documents, which shall include a concise statement of the facts from which the nature of

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the respondent's or intervenor's interest in the proceedings may be determined, which may admit or deny any or all of the facts alleged in the submission and/or additional information filed by Foothills and which shall be endorsed with the name and address of the respondent or intervenor or his solicitor to whom communications may be sent. Any respondent or intervenor shall, on or before the 1st day of June 1979, serve three (3) copies of his reply or submission and supporting information, particulars or documents upon Foothills and one (1) copy upon each of the Attorneys-General of the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, and Quebec, upon the Commissioner of the Yukon Territory and the Commissioner of the Northwest Territories, and upon the United States Federal Energy Regulatory Commission,

3. In order to make potential interested parties in the United States aware of the proceedings, the National Energy Board has served copies of the notice of this hearing on all parties of record in the United States Federal Regulatory Commission Docket CP 78-123 et al, a proceeding on the United States portion of the Alaska Highway Gas Pipeline Project.

4. The National Energy Board Rules of Practice and Procedure shall apply mutatis mutandis to the proceedings.

5. Any interested party may examine copies of
(a) the submission and additional information filed by Foothills on the form and content of the tariff.

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(b) Foothills' application, dated 12 April 1979 and the Board's audit report on the preliminary expenditures as recorded in the books of account of The Alberta Gas Trunk Line Company Limited, Westcoast Transmission Company Limited, Alberta Natural Gas Company Ltd., Foothills Pipe Lines Ltd., and Foothills Pipe Lines (Yukon) Ltd. and its subsidiary companies, up to 31 December 1978, which may qualify for inclusion in the Rate Base of Foothills Pipe Lines (Yukon) Ltd. and its subsidiary companies on the Alaska Highway Gas Pipeline System;

(c) the National Energy Board's proposals concerning the regulation of tolls and tariffs, the incentive rate of return scheme, and submissions received, at the office of

National Energy Board,
Trebla Building,
473 Albert Street,
Ottawa, Ontario
K1A 0E5

or at the following addresses:

Foothills Pipe Lines (Yukon) Ltd.,
1600 Bow Valley Square II,
205 - Fifth Avenue S.W.,
Calgary, Alberta
T2P 2W4

Alaska Gas Project Office,
Federal Energy Regulatory Commission,
941 North Capitol Street, N.E.,
Room 3004,
Washington, D.C.
20426

DATED at the City of Ottawa, in the Province of
Ontario, this 12th day of April, 1979.

NATIONAL ENERGY BOARD

Brian H. Whittle
Secretary

ORDER NO. PO-3-RH-2-79

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder, and the Northern Pipeline Act; and

IN THE MATTER OF a public hearing respecting tariffs, tolls to be charged by Foothills Pipe Lines (Yukon) Ltd. (hereinafter referred to as Foothills), the financing of the pipeline, and other related matters.
File No.: 1510-2-2.

B E F O R E the Board on Wednesday, the 20th day of June, 1979.

WHEREAS, by Order No. RH-2-79, dated the 12th day of April, 1979, a public hearing has been commenced for the purpose of hearing evidence respecting tariffs and tolls to be charged by Foothills, the Incentive Rate of Return Scheme, financing the pipeline and related matters, which hearing is to be held in three phases;

AND WHEREAS evidence and submissions to be heard in Phase II will enable the Board to determine whether the form and content of a tariff filed by Foothills, entitled "Gas Transportation Tariff, Phase I", dated April, 1979, and filed as Exhibit 12 in these proceedings, as supplemented, is an appropriate method to use in the determination of just and reasonable tolls for the movement of Alberta gas through the proposed Foothills portion (the portion to be pre-built) of the Alaskan Highway Gas Pipeline System;

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IT IS ORDERED THAT:

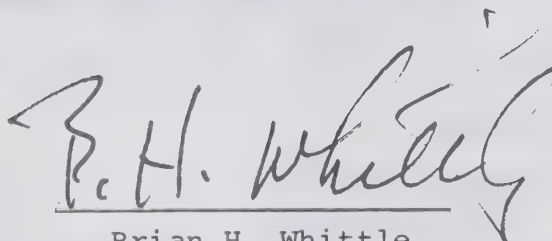
1. The said public hearing will be resumed on Tuesday, the 31st day of July, 1979, at 9:00 a.m. in the Hearing Room of the National Energy Board, Trebla Building, 473 Albert Street, in the City of Ottawa, in the Province of Ontario, for the hearing of evidence, submissions and arguments relating to the said Phase II;
2. In this Order, "party" means Foothills and any respondent or intervenor who has filed with the Secretary of the Board a written statement pursuant to paragraph 5 of Order No. RH-2-79;
3. Foothills shall, on or before the 13th day of July, 1979, file with the Secretary of the Board, thirty (30) copies of its direct evidence in written question and answer form respecting Phase II and serve one (1) copy thereof upon all parties to this Hearing and upon the Attorneys-General of the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Quebec, the Commissioner of the Yukon and the Commissioner of the Northwest Territories, and upon the United States Federal Energy Regulatory Commission;
4. Any party other than Foothills who wishes to present direct evidence to the Board at the hearing of Phase II shall prepare such evidence in written question and answer form and shall, on or before the 24th day of July, 1979, file fifteen

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(15) copies thereof with the Secretary of the Board and serve a copy thereof upon Foothills and upon each other party.

DATED at the City of Ottawa, in the Province of Ontario, this 20th day of June, 1979.

NATIONAL ENERGY BOARD

A handwritten signature in dark ink, appearing to read "B. H. Whittle", is written over a horizontal line.

Brian H. Whittle
Secretary

NATIONAL ENERGY BOARD



OFFICE NATIONAL DE L'ÉNERGIE

ORDER NO. AO-1-PO-3-RH-2-79

IN THE MATTER OF the National Energy Board Act
and the Regulations made thereunder, and the
Northern Pipeline Act; and

IN THE MATTER OF a public hearing respecting
tariffs, tolls to be charged by Foothills
Pipe Lines (Yukon) Ltd. (hereinafter referred
to as Foothills), the financing of the
pipeline, and other related matters.
File No.: 1510-2-2

B E F O R E

C.G. Edge,
Vice-Chairman

L.M. Thur,
Associate Vice-Chairman

R.B. Horner,
Member

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On Friday, the 27th day
of July, 1979.

UPON the Board having ordered, by Order No. PO-3-RH-2-79,
that the public hearing respecting tariffs and tolls to be charged
by Foothills, the financing of the pipeline and other related matters
be resumed on Tuesday, the 31st day of July, 1979, for the hearing
of evidence, submissions and arguments relating to Phase II of the
said hearing;

AND UPON application being made by Counsel for Foothills
for an order postponing the date of resumption of Phase II of the
said hearing;

AND UPON representations being made to the Board by Counsel
for Foothills, supported by Counsel for certain intervenors;

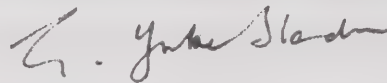
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IT IS ORDERED THAT:

Order No. PO-3-RH-2-79 be and the same is hereby changed, altered and varied by deleting the phrase "on Tuesday the 31st day of July" in paragraph 1 thereof and substituting therefor "on Wednesday, the 1st day of August".

DATED at the City of Ottawa, in the Province of Ontario, this 27th day of July, 1979.

NATIONAL ENERGY BOARD



for Brian H. Whittle,
Secretary.

ORDER NO. AO-1-TG-1-79

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder; and the Northern Pipeline Act; and

IN THE MATTER OF a public hearing respecting tolls and tariffs to be charged by Foothills Pipe Lines (Yukon) Ltd. (hereinafter referred to as "Foothills (Yukon)"), the financing of the pipeline, and other related matters.
File No. 1510-2-2

B E F O R E the Board on Tuesday, the 11th day of September, 1979

WHEREAS by Order No. RH-2-79 the National Energy Board ("the Board") ordered that a public hearing be held in Ottawa to hear evidence and submissions on the tariffs and tolls to be charged by Foothills (Yukon), the financing of the Foothills (Yukon) natural gas pipeline, and other related matters;

AND WHEREAS the Board decided to hear evidence and submissions on these matters in phases;

AND WHEREAS the Board having heard and considered the evidence and submissions relating to Phase I of the hearing, released its Decision on Phase I and issued Order No. TG-1-79 in connection therewith on 30 July 1979;

AND WHEREAS Order No. TG-1-79 sets out the Board's Method for Regulating the Tolls and Tariffs of the Foothills (Yukon) pipeline;

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AND WHEREAS the Board has heard, commencing 1 August 1979, evidence and submissions relating to Phase II of the hearing on matters related to the form and content of the tariff for the movement of Alberta gas through the southern portion of the Foothills (Yukon) pipeline proposed to be prebuilt;

AND THE BOARD having heard and considered the evidence and submissions relating to Phase II of the hearing and finding it necessary to amend, alter and vary Order No. TG-1-79,
IT IS ORDERED THAT:

1. The first paragraph of the National Energy Board's Method for Regulating the Tolls and Tariffs of the Foothills (Yukon) Pipeline attached to and forming part of Order No. TG-1-79 be and the same is hereby amended, altered and varied by adding the following:

"The National Energy Board's Method for Regulating the Tolls and Tariffs of the Foothills (Yukon) Pipeline shall apply to the operation of the Foothills (Yukon) pipeline, including the operation of the facilities of the southern portion of the Foothills (Yukon) pipeline proposed to be prebuilt."

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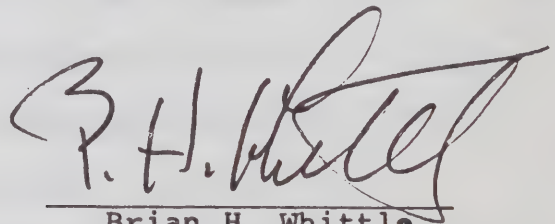
2. Paragraph 3 of the National Energy Board's Method for Regulating the Tolls and Tariffs of the Foothills (Yukon) Pipeline attached to and forming part of Order No. TG-1-79 be and the same is hereby revoked and the following be substituted therefor:

"Interested Parties

3. Representative consumer-interest groups and representative Canadian producer-interest groups may, upon application, be granted interested party status in all matters related to tolls and tariffs subsequent to the hearing called by the Board's Order No. RH-2-79. Any shipper will automatically be considered an interested party."

DATED at the City of Ottawa, in the Province of Ontario this 11th day of September, 1979.

NATIONAL ENERGY BOARD



Brian H. Whittle
Secretary

ORDER NO. TG-4-79

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder; and the Northern Pipeline Act; and

IN THE MATTER OF a public hearing respecting tolls and tariffs to be charged by Foothills Pipe Lines (Yukon) Ltd. (hereinafter referred to as "Foothills (Yukon)"), the financing of the pipeline, and other related matters.
File No. 1510-2-2

B E F O R E the Board on Tuesday, the 11th day of September 1979

WHEREAS by Order No. RH-2-79 the National Energy Board ("the Board") ordered that a public hearing be held in Ottawa to hear evidence and submissions on the tariffs and tolls to be charged by Foothills (Yukon), the financing of the Foothills (Yukon) natural gas pipeline, and other related matters ("the hearing");

AND WHEREAS the Board decided to hear evidence and submissions on these matters in phases;

AND WHEREAS the hearing of Phase I was completed on 26 June 1979 and the Board, on 30 July 1979, released its decision on Phase I and issued Order No. TG-1-79 by which the Board disposed of the Phase I issues;

AND WHEREAS the purpose of Phase II was to enable the Board to determine whether the form and content of the tariff for the movement of Alberta gas through the southern portion of the Canadian Segments of the Alaska Highway Gas Pipeline Systems proposed to be prebuilt ("the prebuilt section of the

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Foothills (Yukon) pipeline") is an appropriate method to use in the determination of just and reasonable tolls for such movement and the Board included in Phase II the examination of the economic effect of such tariff;

AND WHEREAS Foothills (Yukon), with respect to the matters being dealt with in Phase II of the hearing, applied for an order approving the form and content of the tariff for the prebuilt section of the pipeline;

AND THE BOARD having heard and considered the evidence and submissions relating to Phase II of the hearing;
IT IS ORDERED THAT:

1. Pursuant to subsection 31(2) of the Northern Pipeline Act, a single tariff shall be established in Canada for all Canadian segments of the southern portion of the Foothills (Yukon) pipeline proposed to be prebuilt, and Foothills (Yukon) shall file such tariff at a date to be specified by the Board, in the form filed and dated April 1979, as amended by or qualified in the Board's Reasons for Decision in the Matter of Phase II of the Public Hearing Respecting Tariffs and Tolls to be charged by Foothills (Yukon), the financing of the pipeline, and other related matters, dated October 1979 ("the Board's Reasons for Decision").

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2. Pursuant to section 35 of the Northern Pipeline Act, the form and content of the Foothills (Yukon) tariff for the prebuilt section of the Foothills (Yukon) pipeline, (the "prebuild" tariff) in the form filed and dated April 1979, including the form and content of the tariff for the subsidiaries of Foothills (Yukon) together with their respective supporting agreements and schedules, be and the same are hereby approved subject to:

(a) Foothills (Yukon) amending its tariff in a form and content satisfactory to the Board in conformity with the Board's Reasons for Decision;

(b) Any further modifications that may be required by:

(i) a pricing regime for the export of gas through "prebuild" facilities, which, in the opinion of the Board would be significantly different from that which it is assumed will prevail in the Board's Reasons for Decision;

(ii) the decision or decisions of the Federal Energy Regulatory Commission relating to the tolls and tariffs applicable to "prebuild" facilities in the United States;

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- (iii) should a continuous pipeline not be constructed by Foothills (South B.C.), matters arising out of the public hearing into the tolls and tariffs of Alberta Natural Gas;
- (iv) matters arising in Phase III of the hearing including the allocation of Foothills (Yukon) administrative charges;
- (v) changes arising from the execution of contracts for the transportation of the gas between Foothills (Yukon) and the shippers;
- (vi) changes arising from the execution of service agreements for the transportation of gas between Foothills (Yukon) and its subsidiaries;
- (vii) changes arising from the execution of contracts for the transportation of gas on the facilities of Alberta Natural Gas, between Foothills (South B.C.) and Alberta Natural Gas;
- (viii) changes arising from the execution of construction management agreements and operating agreements in a form already filed with the Board, or as amended in a form satisfactory to the Board;
- (ix) modifications deemed necessary by the Board as a result of definitive financing plans; and

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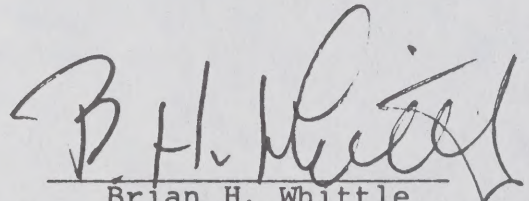
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(x) matters not dealt with in these proceedings.

3. Pursuant to Part IV of the National Energy Board Act, a depreciation rate on those assets identified in subparagraph 8.4(b) of Foothills (Yukon) Subsidiaries' Rate Schedule, Sheet No. 106 of four percent for accounting purposes during the period when the tariff for the prebuilt section of the pipeline is in effect be and the same is hereby approved.

DATED at the City of Ottawa, in the Province of Ontario, this 11th day of September, 1979.

NATIONAL ENERGY BOARD



Brian H. Whittle
Secretary

